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Message Text

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PAGE 01 PARIS 22004 01 OF 02 291637Z
ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 EURE-00 AID-05 CEA-01 CIAE-00
COME-00 EB-08 EA-07 FRB-03 INR-07 NEA-10 NSAE-00
OPIC-03 SP-02 TRSE-00 LAB-04 SIL-01 AGRE-00
OMB-01 SS-15 INRE-00 SSO-00 USIE-00 XMB-02 L-03
IGA-02 ABF-01 /101 W
----------005151 291707Z /50
O R 291527Z JUL 77
FM AMEMBASSY PARIS
TO SECSTATE WASHDC IMMEDIATE 672
INFO ALL OECD CAPITALS
USMISSION GENEVA
AMEMBASSY BRUSSELS

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USOECD

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E.O. 11652: N/A
TAGS: ETRD OECD
SUBJ: AD HOC GROUP ON THE COMMON FUND: MEETING
JULY 28

1. SUMMARY: OECD AD HOC GROUP ON COMMON FUND HAD INTENSIVE EXCHANGE OF VIEWS ON BASIC ISSUES OF POOLING AND BACKUP MECHANISMS ON BASIS OF INFORMAL PAPERS SUBMITTED BY SECRETARIAT, U.S., UK AND FRG. DISCUSSION FOCUSSED ON DISTINCTION BETWEEN DIFFERENT TYPES OF BACKUP FACILITIES, DEPOSIT/CREDIT RELATIONSHIPS AND INTEREST RATES, AND POTENTIAL FOR FUND BORROWING FROM PRIVATE MARKETS AND IBRD. HIGHLIGHTS ARE REPORTED
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PAGE 02 PARIS 22004 01 OF 02 291637Z

BELOW. EXCHANGE REVEALED FEW IF ANY BASIC PHILOSOPHICAL DIFFERENCES IN APPROACH AMONG MEMBERS OF GROUP ON BASIC POOLING CONCEPT ALTHOUGH THERE ARE DIFFERENCES ON DETAILS OF DEPOSITS, CREDITS AND NATURE OF BACKUP FACILITY. NEXT STEP IS PRODUCTION OF CHAIRMAN'S SYNTHESIS PAPER FOR USE AT NEXT MEETING SEPT. 8-9 (ASSUMING TIMELY SUBMISSION OF ADDITIONAL

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

COUNTRY SUBMISSIONS) WHICH WOULD SEEK TO DEFINE A CONSENSUS CONCEPT OF A POOLING TYPE COMMON FUND. END SUMMARY.

2. BACKUP FACILITY: DISCUSSION FOCUSSED ON DISTINCTION BETWEEN FEATURES NEEDED TO ENSURE THAT POOL WAS VIABLE (I.E. THAT ICA'S COULD WITHDRAW THEIR DEPOSITS PLUS WHATEVER CREDITS THEY WERE ENTITLED TO ON THE BASIS OF ECONOMICS FROM POOLING) AND IMPLICATIONS OF PROVIDING THE POOL WITH ADDITIONAL RESOURCES. FRG AND UK REACTED NEGATIVELY TO IDEA THAT FUND COULD LEND AMOUNTS BRINGING AN ICA OVER 100 PERCENT OF ITS AGREED REQUIREMENTS (AS APPARENTLY INFERRED FROM INFORMAL DISCUSSION PAPER CIRCULATED BY U.S. AS WELL AS EARLIER EXPRESSIONS OF U.S. VIEWS). THE FRG EMPHASIZED THE POTENTIAL THIS APPROACH COULD HAVE FOR IRRESPONSIBLE BEHAVIOR ON THE PART OF THE ICA'S (PARTICULARLY UNDERESTIMATION OF THE FINANCIAL RESOURCES NEEDED). UK INDICATED CONCERN ABOUT THE MORE ACTIVE ROLE SUCH A PROVISION WOULD IMPLY FOR THE FUND ITSELF AND ITS EFFECT OF SUPPORTING UNDER FINANCING OF ICA'S. UK ALSO SAW LEGAL DIFFICULTIES IN ANY BUFFER STOCK MANAGER'S ATTEMPT TO DRAW OVER 100 PERCENT OF AGREED REQUIREMENTS. EC COMMISSION REP EXPRESSED SIMILAR WORRY THAT SUCH A CONCEPT MIGHT UNDERMINE THE PRINCIPLE THAT THE ICA'S ALONE SHOULD
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DETERMINE STOCK SIZE. CONCERN OVER EROSION OF ICA AUTONOMY RESULTING FROM SUCH A FACILITY WAS EXPRESSED BY SEVERAL COUNTRIES. REACTING TO THESE GENERAL ARGUMENTS, CHAIRMAN POINTED OUT THAT, CONSIDERING THEIR IMPORTANCE AS CONSUMERS OF MOST COMMODITIES, OECD COUNTRIES PRESENT IN THE ROOM WOULD DOUBTLESS BE PARTIES TO EVERY PRODUCER-CONSUMER ICA AND HENCE WOULD HAVE OPPORTUNITY AND RESPONSIBILITY IN EACH CASE TO INSURE RESPONSIBILE ICA BEHAVIOR AND SAFEGUARD ICA AUTONOMY. JAPAN STATED ANY FACILITY PROVIDING CAPABILITY BEYOND THAT NEEDED FOR POOL'S VIABILITY WOULD NEED CAREFUL STUDY, ESPECIALLY OF THE IMPLICATIONS ITS AVAILABILITY WOULD HAVE FOR THE NEGOTIATION OF NEW ICA'S, AND THAT STRONG CONDITIONS WOULD HAVE TO BE ATTACHED TO ITS USE. FRENCH EXPRESSED GENERAL SUPPORT FOR IDEA OF ADDITIONAL BACKUP MECHANISM TO DEAL WITH EXTREME SITUATIONS. SWEDEN,

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

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PAGE 01 PARIS 22004 02 OF 02 291649Z
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OPIC-03 SP-02 TRSE-00 LAB-04 SIL-01 AGRE-00
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IGA-02 ABF-01 /101 W
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SWITZERLAND, AND DENMARK LOOKED FAVORABLY ON ADDITIONAL
BACKUP NOTING THAT IT WAS UP TO PARTICIPANTS IN ICA'S
TO ENSURE THAT THE TARGETS SET WERE RESPONSIBLE ONES
AND THAT ACCESS TO SUCH ADDITIONAL BACKUP WOULD
PRESUMABLY BE CONDITIONED ON EXISTENCE OF EMERGENCY
MACOECONOMIC CONDITIONS. THE U.S. NOTED THAT THE
CONCEPT IN ITS DISCUSSION PAPER AIMED PRECISELY AT
SUCH EMERGENCY NEEDS, AND WAS A TENTATIVE IDEA
INDENDED TO STIMULATE DISCUSSION RATHER THAN REPRESENT
A FIRM U.S. POSITION. CHAIRMAN SAID HE SAW U.S. TWO-
STAGE BACKUP IDEA ESSENTIALLY AS A USEFUL ANALYTICAL
APPROACH TO WAY IN WHICH BACKUP MIGHT OPERATE RATHER
THAN A SPECIFIC PROPOSAL FOR A TWO-STAGE FACILITY.

3. DEPOSIT/CREDIT RELATIONSHIPS: VIEWS ON THIS QUES-
TION REMAINED DIVERSE AS AT PREVIOUS MEETINGS.
INFORMAL GERMAN PAPER SUGGESTED TWO OPTIONS: ICA'S
COULD DETERMINE THEIR OWN DEPOSIT AND GET CREDIT
RIGHTS OF SAY 25 PERCENT TO 50 PERCENT OF SUCH DEPOSITS
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PAGE 02 PARIS 22004 02 OF 02 291649Z

(WITH TOTAL NOT TO EXCEED 100 PERCENT OF ICA'S AGREED
RESOURCES), OR ICA'S COULD BE REQUIRED TO DEPOSIT
HIGH PROPORTION, SAY 70 PERCENT OF RESOURCES AND GET
CREDIT RIGHTS FOR REMAINING 300 PERCENT OF REQUIREMENTS.

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

BELGIUM FAVORED 100 PERCENT MINIMUM AND U.S. AND NEW ZEALAND INDICATED PREFERENCE FOR FIGURE IN HIGH RANGE. U.S. PAPER SUGGESTED FIRST BACKUP CREDIT RIGHTS OF 15-25 PERCENT OVER AND ABOVE DEPOSIT. DENMARK, ON OTHER HAND, THOUGHT 50/50 SPLIT WAS REQUIRED FOR ATTRACTIVENESS, AND DUTCH GAVE TENTATIVE VIEW THAT 40 PERCENT WOULD BE APPROPRIATE. UK MAKE CASE FOR MINIMUM OF 40 TO 50 PERCENT ON THE BASIS THAT IF IT WERE HIGHER, IN THE CASE OF THE TIN AGREEMENT PRODUCERS WOULD HAVE TO PUT UP MORE MONEY TO ENABLE THAT AGREEMENT TO JOIN THE FUND. ON QUESTION OF INTEREST RATES ON DEPOSITS AND CREDITS, THERE WAS BROAD PREFERENCE FOR MARKET OR NEAR MARKET RATES, ON BASIS THAT THIS WAS NECESSARY TO INDUCE ICA'S TO DEPOSIT FUNDS. FRG THOUGHT LOW RATE POLICY MIGHT BE VIABLE AND THAT CHEAP CREDIT POSSIBILITIES WOULD OFFER INCENTIVE TO ICA'S TO JOIN FUND.

4. COMMERCIAL BORROWING: UK PRESENTATION PLACED PRIMARY EMPHASIS ON ADVANTAGES OF AND NEED FOR GOVERNMENT GUARANTEES TO ENABLE COMMON FUND TO BORROW ON PRIVATE CAPITAL MARKETS, WHILE US FOCUSSED MORE ON POTENTIAL OFFERED BY USE OF STOCK WARRANTS AS COLLATERAL AND POSSIBLE UTILITY OF A SPECIAL RESERVE ACCOUNT IN THE FUND. REACTION OF OTHER DELS WAS GENERALLY POSITIVE ON EXPLORATION OF THESE POSSIBILIT-IES IN HOPE OF BEING ABLE TO AVOID LESS DESIRABLE OPTIONS FOR FINANCING OF BACKUP FACILITIES (SUCH AS GOVERNMENT CONTRIBUTIONS), BUT GREAT COMPLEXITY
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OF SUBJECT WAS ALSO RECOGNIZED. GROUP B COORDINATOR BARRASS POINTED OUT THAT BORROWING ARRANGEMENTS MEDIATED BY COMMON FUND WOULD HAVE TO BE COMPETITIVE WITH THOSE AVAILABLE DIRECTLY FROM PRIVATE SECTOR WITH RESPECT TO COLLATERAL REQUIREMENTS, AND WONDERED IF THIS WOULD BE POSSIBLE. HE SAID THAT ON ONE OCCASION BANKS HAD GIVEN TIN AGREEMENT LOANS UP TO 80 PERCENT OF THE VALUE OF ITS STOCKS, AND THAT THIS MEANT PRODUCERS ABLE TO COVER 100 PERCENT OF THE TIN STOCK'S REQUIREMENTS BY CONTRIBUTION OF ONLY 56 PERCENT IN CASH.

5. IBRD LENDING: IN RESPONSE TO PRESENTATION OF DISCUSSION PAPER BY U.S., NUMBER OF DELS URGED FURTHER EFFORTS TO FIND SOLUTION WHICH WOULD NOT REQUIRE AMEND-MENT OF IBRD CHARTER TO ALLOW LENDING TO FUND. EC COMMISSION REP INDICATED DOUBT THAT ANY WAY COULD BE FOUND AROUND THE PROBLEMS OF USING THIS INSTITUTION FOR FINANCING BUFFER STOCKS THROUGH THE COMMON FUND

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

AND PROPOSED IT BE BROUGHT INTO PLAY MAINLY AS ALTERNATIVE IN RESPONSE TO LDC DEMANDS FOR ACTION ON "OTHER MEASURES."

6. FUTURE WORK: GROUP AGREED TO WORK SCHEDULE PROPOSED BY CHAIRMAN AND WILL MEET SEPTEMBER 8-9 TO FURTHER REFINE VIEWS ON QUESTIONS OF POOLING AND BACKUP FACILITIES, AS WELL AS TO TAKE UP QUESTIONS OF PRINCIPLE AND ORGANIZATION. CHAIRMAN MADE STRONG APPEAL TO DELS TO SUBMIT THEIR VIEWS IN WRITING ON KEY ISSUES DURING AUGUST SO THAT CHAIRMAN AND SECRETARIAT COULD PRODUCE NOTE SYNTHESIZING KEY ISSUES AND ARGUMENTS RAISED BY VARIOUS NATIONAL AND PERSONAL PAPERS FOR USE AT NEXT MEETING. UK, FRANCE, NETHERLANDS AND FINLAND ALL INDICATED, WITHOUT COMMITMENT, THAT THEY WOULD TRY TO SUBMIT PAPERS. U.S. EXPRESSED INTENTION TO PROVIDE PAPER WITH FULLER ELABORATION
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OF ITS VIEWS IN THE COURSE OF AUGUST.
SALZMAN

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Message Attributes

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Disposition Event:
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